MAY 2012

P/ID 77521/ PMEE/PMBF1

Time : Three hours

Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. Explain the nature of corporation finance.

2. How the investment decision is influenced by probability approach?

3. What is stable dividend policy? Why should a firm follow such a policy?

4. Explain the role of Small Industries Development Bank of India.

5. How stock markets influence the capital market?

6. Why business firms fail? Suggest ways to overcome such failures.

7. Brief the different schemes of mutual funds of India.

8. What is inflation? What are its influence on financial decisions?

PART B — ($5 \times 10 = 50$ marks)

Answer any FIVE questions.

All questions carry equal marks.

9. What are the assumptions and arguments used by Modigliani and Miller in support of the irrelevance of dividends?

10. How financial institutions strengthen corporate finance?

11. ‘SEBI aims at developing a healthy capital market’. Substantiate.

12. ‘Conglomerate firm shares tend to have higher market value due to lower cost of capital’. Elucidate.

13. Briefly discuss the framework for evaluation of lease from the viewpoint of a lessor.

14. Why Government of India encourages business ventures abroad?

15. Brief the features of International Financial Institutions.

16. What is call option? State the situation when you will like to go for such an option. When will you not exercise it?

PART C — (20 marks)

17. Case Study :

The Sick Company Ltd (SCL) has total accumulated losses of Rs. 25 lakh caused by operating losses of past several years. The strong Ltd has acquired the SCL to wipe these losses and to diversify its operations. The Strong Ltd's expected earnings before taxes are Rs. 20 lakh per year for the next 3 years.

Assuming these earnings are realized and setting off the losses is allowed under tax laws, determine the likely benefit to Strong Ltd, given corporate tax rate of 35 per cent and its cost of capital as 15 per cent.